

### Key Market Highlights

- Global bond yields surged last week as concerns intensified that central banks may be forced to raise interest rates amid persistently elevated oil prices.
- The global stock market rally driven by artificial intelligence (AI) optimism faded late in the week, as inflation data highlighted mounting price pressures across the global economy.
- Brent crude oil prices rose more than 7% last week as the Strait of Hormuz remains closed and the Trump-Xi summit offered no breakthrough in the standoff over the shipping lane.
- Earnings from a key global bellwether for the AI industry and the broader technology sector will be closely watched this week, as it may shape sentiment for other AI-related stocks.
- While concerns over inflation and tighter monetary policy may weigh on sentiment in the near term, risk assets are likely to remain supported by resilient earnings and continued AI-driven growth.

### Topics of the Week:

#### Analysis of United States (US) economy amid ongoing Middle East conflict

- Policy makers face a difficult balancing act as conflicting signals on the US economy are emerging, where growth has held up but the Middle East conflict is creating an environment of renewed inflation.
- Price pressures have broadened beyond energy into services, suggesting that overall inflation is regaining upward momentum rather than stabilising.
- From an inflation standpoint, it complicates the Federal Reserve's (Fed) policy outlook and calls for a delay to further rate cuts.
- US retail sales for April remained resilient, partly due to higher prices rather than stronger real demand, as retail sales data are calculated based on value and not adjusted for inflation.
- That said, declining real wages highlight growing pressure on household purchasing power, pointing to a potential softening of underlying demand conditions.
- While persistent upstream cost pressures could delay further rate cuts, the likelihood of immediate Fed policy tightening is reduced by weakening consumer sentiment and falling real wages that suggest inflation is increasingly supply-driven rather than demand-led.
- **House View:** We have pushed back our expectations of Fed rate cuts. The Fed is now expected to keep interest rates unchanged for the remainder of 2026 before resuming easing in 2027.

#### China offers diversification opportunities amid a concentrated market

- Market leadership has become increasingly concentrated in a narrow group of mega-cap technology and semiconductor stocks amid AI-related optimism, particularly in the US and parts of Asia.
- In contrast, China offers a more diversified market profile.
  - o China benefits from participation in the global AI theme but with less crowded positioning



compared to US markets and other Asian markets.

- o Earnings expectations are improving not only in technology-focused indices, but also in broader benchmarks such as the CSI 300.
- o Unlike markets heavily led by a narrow group of AI leaders, China provides exposure across financials, industrials, consumer, and cyclical sectors, creating a more balanced profile which reduces reliance on a single growth theme.
- Importantly, improving macro conditions and stabilising US-China relations may further support foreign inflows into China equities as investors seek diversification away from concentrated markets.
  - o The recent Trump–Xi summit concluded without negative flashpoints.
  - o This has reinforced expectations of more stable US-China relations, lowering the risk of renewed tariff escalation in the near term and supporting overall market sentiment.
  - o Meanwhile, strong external demand, particularly those linked to the global AI investment boom is expected to offset sluggish domestic demand.

## Investment Strategy

- The broader outlook for global equities remains constructive, supported by resilient earnings and continued AI-driven growth.
- While AI-driven optimism is likely to continue supporting global equities, elevated inflation and expectations of policy tightening may increase short-term volatility, particularly in crowded AI-related trades.
- Consider diversifying into China equities to reduce concentration risk, while maintaining exposure to the AI growth theme in a less crowded market.
- Near-term sentiment towards China could also improve on expectations of stabilising US-China relations and the gradual macroeconomic recovery.

## Asset Class Performance

Equities	Current	Performance (%)			
		1 Week	1 Month	3 Months	Year-To-Date
S&P 500 (USD)	7408.5	0.13	5.49	8.37	8.22
Dow Jones (USD)	49526.17	-0.17	2.19	0.05	3.04
NASDAQ 100 (USD)	29125.2	-0.38	11.15	17.76	15.35
FTSE 100 (GBP)	10195.37	-0.37	-3.45	-2.40	2.66
S&P/ASX 200 (AUD)	8630.842	-1.30	-3.87	-3.22	-0.96
DAX (EUR)	23950.57	-1.59	-0.48	-3.87	-2.20
Swiss Market Index (CHF)	13220.17	0.91	0.00	-2.80	-0.36
HSCEI Index (HKD)	8691.03	-2.23	-0.31	-3.78	-2.50
Hang Seng Index (HKD)	25962.73	-1.63	0.06	-2.27	1.30
Nikkei 225 (JPY)	61409.29	-2.08	5.63	7.85	21.99
Commodities & Currencies	Current	1 Week	1 Month	3 Months	Year-To-Date
Brent Crude (USD)	109.26	7.87	20.32	65.05	81.43
Gold (USD)	4540.08	-3.72	-5.24	-9.96	5.11
EURUSD	1.1625	-1.37	-1.47	-2.05	-1.03
GBPUSD	1.3326	-2.24	-1.73	-2.38	-1.11
USDJPY	158.74	1.31	-0.16	3.96	1.30
Bonds	Current (%)	Basis points Change			
		1 Week	1 Month	3 Months	Year-To-Date
US 10-year Treasury yield	4.593	0.239	0.310	0.545	0.426
German 10-year Bund yield	3.167	0.162	0.124	0.412	0.312
UK 10-year Gilts yield	5.172	0.260	0.358	0.756	0.693
Japan 10-year bond yield	2.717	0.234	0.294	0.491	0.651

1 week for the period 08-May-2026 to 15-May-2026

1 month for the period 15-Apr-2026 to 15-May-2026

3 months for the period 13-Feb-2026 to 15-May-2026

Year-to-date for the period 31-Dec-2025 to 15-May-2026

Source: Bloomberg (last update: Sat, 16 May 2026 9:18 AM SGT)



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